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TAGS: ECON EINV ETRD BEXP PREL AR

SUBJECT: ARGENTINA: AMCHAM EXECUTIVE COMMITTEE DEPLORES
GOA'S CONFRONTATIONAL POLITICS, SEEKS CHANNEL TO REBUILD
TRUST

REF: BUENOS AIRES 376

Classified By: Ambassador E.A. Wayne. Reasons 1.5 (B,D)

Summary

¶1. (C) Members of the American Chamber (AmCham) Executive Committee are concerned by the GoA's confrontational response to the nation's agricultural crisis, arguing that policy-making concentrated in a small, closed group of senior GoA officials (President Cristina Fernandez de Kirchner, her husband and ex-President Nestor Kirchner, plus Cabinet Chief Alberto Fernandez and Legal Secretary Carlos Zannini) was at least partially responsible for GoA missteps in the current impasse and in the earlier "suitcase" crisis with the USG. In a March 28 meeting with Ambassador, they opined that the decision-making quartet lacks the capacity to analyze the impact of sweeping economic policy measures like the recently announced increase in export taxes. U.S. company reps expressed disdain at the GoA's apparent use of "brutish" street toughs to chase away anti-K protesters during recent urban center pot banging demonstrations. They complained that the GoA's predilection to intervene in Argentine markets and its capricious management of the nation's tax and regulatory structure is complicating their efforts to win their respective headquarters' support for new investments in Argentina. While most U.S. AmCham member companies were profitable in 2007, margins are being squeezed by rising domestic inflation and they worry about prospects a couple of years out. Company reps sought U.S. Embassy support to schedule a meeting with Cabinet Chief Fernandez before his (now-postponed) visit to New York and Washington to help build better private sector channels of communication with the GoA. End Summary.

¶2. (SBU) Members of the Argentine American Chamber of Commerce (AmCham) Board's Executive Committee met with Ambassador at the close of business on Friday, March 28 to discuss market prospects and challenges AmCham member companies expect to face in 2008 and the status of U.S./Argentine bilateral relations. The AmCham delegation was led by Juan Bruchou, AmCham President and CEO of Citibank Argentina, and Alejandro Diaz, AmCham's CEO. Other members of the AmCham Board Executive Committee who attended were Jose Maria Zas, President American Express; Enrique Alemany, CEO Ford Argentina; Cristian Sicardi, President Cargill

Argentina; and Francisco Crespo, President Coca-Cola Argentina.

AmCham: Concern at GoA Behavior, Margin Squeeze

¶13. (C) AmCham Executive Committee members said they had requested this meeting to express their concerns with the GoA's "poorly thought out" confrontation with Argentina's rural agrarian sector and, more broadly, their concern with a compendium of GoA macroeconomic policies and micro-economic interventions. These interventions, they said, are making it increasingly difficult to plan operations more than a few months in advance. "We are no better off or worse off than local Argentine companies," said Ford's Alemany, "but the GoA (as it functions at present) simply doesn't have the management and analytical capacity to adequately analyze the economic and) more importantly) the political impact of economic measures it announces" like the recent hike in agricultural export tariffs which set off waves of protests by the farm sector.

¶14. (C) AmCham President Bruchou said that most U.S. member companies were profitable in 2007 and also in the first quarter of 2008. However, he stressed that company margins are being progressively squeezed by rising domestic inflation and that the GoA capricious management of the nation's tax and regulatory structure has made it difficult to win headquarters support for any substantial new investment in Argentina. Cargill President Sicardi noted that his company's grain processing, crushing, and shipping operations have lost "millions" in revenues from cancelled grain shipments, port demurrage charges, and re-routing expenses due to the recent farmers strike, now in its third week,

though Cargill likely will still do very well this year. Ford's Alemany called 2007 a banner year for the Argentine automotive sector, which has benefited from the long-standing bilateral Brazil/Argentine auto pact as well as strong demand in Mexico and 79 other export markets, and the continuing strength of the Brazilian market for Argentine car and parts imports, in part due to the substantial appreciation of the Brazilian Real. Coca Cola's Crespo noted a recent report by prominent independent economist Miguel Angel Broda that estimated domestic inflation at 1% per week over the past three weeks (and the ominous possibility of inflation reaching as high as 40% by the end of 2008), largely due to agricultural strike-related food price increases. He called his own company's estimation of actual 2007 inflation in the 20-22% range. (Coke is also doing very well in Argentina with good profitability in 2007, Ambassador was told separately.)

(C) Parallels: The Agro Crisis and "Valijagate"

¶15. (C) AmCham participants noted many parallels in the GoA's reactionary response to the current agricultural sector general strike with its earlier response to the "Valijagate" scandal that led to a seven week period of bilateral tension with the USG. In both cases, a very small group of senior GoA decision makers)- likely only the two Kirchners, Cabinet Chief Alberto Fernandez, and Legal and Technical Secretary to the Presidency Carlos Zannini -- operated in a relative vacuum and made strategic decisions without the valuable input of others in or out of government.

As a consequence, in both cases, the President painted herself into a political corner by personally making overly aggressive public statements that made it difficult for her cabinet-level officials to walk back. In Valijagate, the President personally accusing the USG of masterminding a "garbage (intelligence) operation;" in the current agrarian crisis, she personally antagonized rural producers by omitting a call for dialogue in her initial March 26 speech (Reftel) and characterizing her response to the farmers' actions as a defense of the Argentine people.

16. (C) Participants expressed a fear that, under public pressure, the government could become further isolated. They expressed distain for the GoA's decision to employ the "brutish" piquetero groups to chase away the spontaneous citizen protesters from the city center (Plaza de Mayo) during recent urban pot-banging ("cacerolazo") demonstrations in support of rural demands (but really in opposition to the GoA's heavy-handed treatment of those with which it does not agree). They also deplored the heavy-handed tactics of Internal Commerce Secretary Guillermo Moreno. (Separately, Wal-Mart reported to Commercial Counselor last Friday that Moreno had met with company executives from all of the supermarket chains and ordered them to roll back all prices to March 1 levels in a very rude manner.)

How to Build Trust Between U.S. Companies and GoA?

17. (C) In closing, company executives vented their frustration at the GoA's lack of trust in the private sector, including responsible U.S. companies, and the limited dialogue it maintains with business people from Argentine and foreign companies alike. "How can we gain access to this government?" said Coca Cola's Crespo. "We pay taxes, generate employment, pay good wages and didn't cut and run like some European players did in the depth of the economic crisis. Why can't this government trust us and work with us?" Participants noted that Cabinet Chief Alberto Fernandez appears to be one of the more open and thoughtful voices at the Kirchners, "small table" decision making sessions. They asked the Ambassador to seek a meeting for the AmCham Exec Board with Fernandez, perhaps as a precursor to his upcoming meeting to New York City and Washington. They noted Fernandez, upcoming visit to Washington to meet with A/S Shannon (recently postponed from March 31 to the week of April 7), and suggested he would do well to consider traveling to the United States accompanied by a delegation of U.S. company executives with whom he has established a good working relationship, given that one of his objectives is to attract additional investment.

Comment

18. (C) The GoA and Argentine society at large is generally more suspicious of the private sector than other countries in Latin America. The GoA's confrontational style is not unique to its dealings with the private sector, but reflects the way problems tend to be dealt with in Argentina at both the macro and micro levels. Argentines are quick to accuse and insult, as well as to forgive and forget. Nevertheless, the GoA would do well to expand its circle of informal policy advisors and strengthen its relationship with the private sector, both domestic and international. Chief of Cabinet Alberto Fernandez has demonstrated an awareness of this need and has worked to put the U.S./Argentina bilateral relationship back on track, including through intensified dialogue with the Ambassador and by taking on the role of principal interlocutor with the USG. Post recommends that inter-agency players at State, Commerce, and Treasury take advantage of Mr. Fernandez's upcoming visit to Washington to engage him at senior levels.

19. (C) The American Chamber celebrates its 90th Anniversary this year, and its member companies (including 500 U.S. companies) are eager to support USG efforts to strengthen the bilateral relationship. These companies' access to the GoA would be enhanced by a demonstration of strong interest by the USG in strengthening bilateral respect and collaboration.
WAYNE